REM Group (Holdings) Limited
全達電器集團(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1750)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**") of REM Group (Holdings) Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2019 together with comparative figures for the corresponding six months period in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	3	**110,946**	84,698
Cost of sales		**(82,917)**	(59,839)
Gross profit		**28,029**	24,859
Other income, gains and losses	4	**(219)**	465
Selling and distribution expenses		**(5,295)**	(4,476)
Net impairment loss recognised on trade receivables and contract assets		**(173)**	–
Administrative and other expenses		**(11,768)**	(15,358)
Finance costs	5	**(38)**	(309)
Profit before taxation		**10,536**	5,181
Income tax expense	6	**(3,686)**	(2,512)
Profit for the period	7	**6,850**	2,669

	Note	Six months ended 30 June 2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
Other comprehensive expense for the period:			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences arising on translation of foreign operations		**(952)**	(714)
Total comprehensive income for the period		**5,898**	1,955
Earnings per share			
– Basic	9	**0.38 HK cents**	0.17 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**30 June 2019 HK$'000 (unaudited)**	31 December 2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**21,555**	19,888
Right-of-use assets		**4,751**	–
Prepaid lease payments		**–**	2,829
Rental deposits		**258**	125
Contract assets	10	**19,993**	11,569
		46,557	34,411
Current assets			
Inventories		**38,529**	27,011
Contract assets	10	**15,582**	10,776
Trade and other receivables	11	**84,008**	80,997
Prepaid lease payments		**–**	77
Financial assets at fair value through profit or loss		**503**	449
Amounts due from directors		**18**	18
Short-term bank deposits with original maturity more than three months		**4,854**	8,580
Bank balances and cash		**79,045**	90,541
		222,539	218,449
Current liabilities			
Trade and other payables	12	**55,251**	49,867
Contract liabilities		**1,636**	1,397
Lease liabilities		**876**	–
Amount due to a director		**–**	3
Tax payable		**6,882**	3,516
Bank loan		**–**	271
		64,645	55,054
Net current assets		**157,894**	163,395
Total assets less current liabilities		**204,451**	197,806

	30 June 2019 HK$'000 (unaudited)	31 December 2018 HK$'000 (audited)
Non-current liabilities		
Lease liabilities	**1,213**	–
Provision for long service payments	**718**	736
Deferred tax liabilities	**–**	448
	1,931	1,184
NET ASSETS	**202,520**	196,622
Capital and reserves		
Share capital	**18,000**	18,000
Share premium and reserves	**184,520**	178,622
TOTAL EQUITY	**202,520**	196,622

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated and registered as an exempted company with limited liability on 15 March 2017 under the Companies Law of the Cayman Islands and its shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 May 2018 (the "**Listing**"). The address of the Company's registered office and the principal place of business are PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands and Unit B, 5th Floor, Wing Sing Commercial Centre, Nos. 12 – 16 Wing Lok Street, Hong Kong, respectively. The Company's immediate and ultimate holding company are Unique Best Limited and WAN Union Limited, respectively, which were companies incorporated in the British Virgin Islands.

The principal activity of the Company is investment holding and its subsidiaries are primarily engaged in sales and manufacturing of low-voltage electrical power distribution and control devices.

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The condensed consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases", and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of workshop that have a lease term of 12 months or less from the commencement date. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by prepaid lease payments by applying HKFRS 16.C8(b)(ii) transaction.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the relevant group entities ranged from 4.36% to 4.75%.

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	1,128
Less: Recognition exemption – transitional practical expedients	(198)
	930
Lease liabilities discounted at relevant incremental borrowing rate relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	872
Analysed as	
Current	560
Non-current	312
	872

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets
	HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	872
Reclassified from prepaid lease payments *(Note)*	2,906
	3,778
By class:	
Leasehold lands	2,906
Leasehold land and buildings	872
	3,778

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$77,000 and HK$2,829,000 respectively were reclassified to right-of-use assets.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	**Adjustments**	**Carrying amounts under HKFRS 16 at 1 January 2019**
	HK$'000	*HK$'000*	*HK$'000*
Non-current Assets			
Right-of-use assets	–	3,778	3,778
Prepaid lease payments	2,829	(2,829)	–
Current Asset			
Prepaid lease payments	77	(77)	–
Current Liability			
Lease liabilities	–	560	560
Non-current liability			
Lease liabilities	–	312	312

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents amounts received and receivable for the sales of low-voltage electrical power distribution and control devices, less discounts, if any, during the period.

The executive Directors, being the chief operating decision maker (the "**CODM**"), regularly review revenue analysis by product types, including primarily low-voltage switchboard, local motor control panel, motor control centre, electrical distribution board and control box and electrical parts and replacements, and by location of delivery to customers. The executive Directors considered the operating activities of sales of low-voltage electrical power distribution and control devices as a single operating segment. Other than revenue analysis, the CODM reviews the profit or loss for the period of the Group as a whole to make decisions about performance assessment and resource allocation. The operation of the Group constitutes one single operating segment under HKFRS 8 "Operating Segments" and accordingly, no separate segment information is prepared. No segment assets and liabilities are presented as the CODM does not regularly review segment assets and liabilities.

Entity-wide information

An analysis of the Group's revenue by products for the period is as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Low-voltage switchboard	**37,098**	50,276
Local motor control panel	**54,236**	22,575
Motor control centre	**12,375**	6,624
Electrical distribution board and control box	**3,663**	4,442
Electrical parts and replacements	**3,574**	781
	110,946	84,698

The Group sells all products directly to customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' specific location and customer acceptance has been obtained. The Directors considered that the Group's revenue is recognised at a point in time.

Revenue from external customers, based on location of delivery to customers is as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Revenue:		
Hong Kong	**45,932**	70,251
People's Republic of China ("**PRC**")	**61,762**	4,349
Macau	**3,252**	10,098
	110,946	84,698

An analysis of the Group's non-current assets other than rental deposits and contract assets is presented below based on their physical geographical location:

	At 30 June 2019 *HK$'000* **(unaudited)**	At 31 December 2018 *HK$'000* (audited)
Hong Kong	**5,418**	3,756
PRC	**20,888**	18,961
	26,306	22,717

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2019 *HK$'000* **(Unaudited)**	2018 *HK$'000* (Unaudited)
Net exchange (loss) gain	**(630)**	400
Interest income	**232**	42
Increase (decrease) in fair value of financial assets at fair value through profit or loss	**54**	(2)
Others	**125**	25
	(219)	465

5. FINANCE COSTS

	Six months ended 30 June	
	2019 *HK$'000* **(Unaudited)**	2018 *HK$'000* (Unaudited)
Interest expenses on bank loan	**2**	309
Interest expenses on lease liabilities	**36**	–
	38	309

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax		
Hong Kong Profits Tax	**–**	1,096
PRC Enterprise Income Tax	**4,134**	1,420
Deferred tax	**(448)**	(4)
Income tax expense	**3,686**	2,512

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. The two-tier profits tax rate applies to years of assessment commencing on or after 1 April 2018.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5% (six months ended 30 June 2018: 16.5%).

For both periods, the Hong Kong profits tax of the elected Hong Kong subsidiary is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC is 25% for both periods.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	**1,235**	982
Depreciation of right-of-use assets	**460**	–
Listing expenses (included in administrative and other expenses)	**–**	5,775

8. DIVIDENDS

The Directors do not recommend payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings for the purpose of basic earnings per share	**6,850**	2,669

	Six months ended 30 June	
	2019	2018
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,800,000**	1,540,879

No diluted earnings per share is presented as there were no potential ordinary shares in issue during both periods.

10. CONTRACT ASSETS

Contract assets represent the retention receivables amounting to HK$27,519,000 (31 December 2018: HK$22,345,000) net of allowance for credit losses of HK$25,000 (31 December 2018: HK$62,000) and unbilled revenue amounting to HK$8,056,000 (31 December 2018: nil) net of allowance for credit losses of HK$7,000 (31 December 2018: nil) as at 30 June 2019. Retention receivables are unsecured, interest-free and recoverable at the end of the defect liability period of individual contracts, ranging from 6 months to 2 years from the date of delivery of finished goods to customers. The retention receivables are transferred to trade receivables based on the expiry of the defect liability period. Unbilled revenue represented the Group's consideration for goods delivered to customers and not yet billed as the rights are conditional upon the issue of completion certificate by the customers. The unbilled revenue are transferred to trade receivables when the rights become unconditional, which is typically at the time the Group obtains the completion certificate issued by the customers.

The following is an analysis of contract assets at the end of the reporting period:

	At 30 June	At 31 December
	2019	2018
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within one year	**15,582**	10,776
After one year	**19,993**	11,569
	35,575	22,345

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2019 HK$'000 (unaudited)	At 31 December 2018 HK$'000 (audited)
Trade receivables	**75,437**	73,908
Less: Allowance for credit losses	**(753)**	(550)
	74,684	73,358
Other receivables, prepayment and deposits	**9,324**	7,639
	84,008	80,997

The Group allows an average credit period of 30 to 75 days to its trade customers. A longer credit period may be granted to large or long established customer with good payment history. The following is an analysis of trade receivables by age, presented based on the invoice date at the end of the reporting period:

	At 30 June 2019 HK$'000 (unaudited)	At 31 December 2018 HK$'000 (audited)
0 – 30 days	**44,963**	44,430
31 – 60 days	**12,364**	16,531
61 – 90 days	**7,225**	6,811
91 – 180 days	**2,606**	2,494
181 – 365 days	**5,454**	2,702
Over 1 year	**2,072**	390
	74,684	73,358

12. TRADE AND OTHER PAYABLES

The following is an analysis of trade and bill payables by age, presented based on the invoice date at the end of the reporting period:

	At 30 June 2019 HK$'000 (unaudited)	At 31 December 2018 HK$'000 (audited)
0 – 30 days	**19,555**	15,305
31 – 60 days	**16,007**	19,862
61 – 90 days	**9,141**	4,758
Over 90 days	**7,591**	4,516
	52,294	44,441

The other payables mainly consist of accrual of staff salaries and benefits.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND MARKET PROSPECT

The Group is a renowned manufacturer and supplier of low-voltage electrical power distribution and control devices in Hong Kong, Macau and the PRC. The Group's business have evidently improved during the six months ended 30 June 2019, as a result of a significant rise in revenue from the PRC market which is mainly contributed by several projects in relation to two urban complex constructions which are commercial centers comprising of a shopping mall, commercial building and service apartments in Kunming and Wuhan, respectively. On the other hand, the revenue from Hong Kong and Macau has dropped as the Group allocated more resources towards the completion of jobs in the PRC which had tighter delivery schedules. The Directors anticipated that the proportion of revenue attributed from Hong Kong and Macau will increase extensively in the latter half of the year as the Kunming and Wuhan projects will be substantially completed while no new major PRC projects are expected to be commenced for the remainder of the year 2019.

The Group had successfully secured several major projects in the PRC since the Listing and it will continue to promote its business in order to further enhance its reputation and market share in the low-voltage electrical power distribution and control devices industry in the PRC.

FINANCIAL REVIEW

Revenue

The Group's revenue increased significantly by approximately HK$26.2 million, or approximately 31.0%, from approximately HK$84.7 million for the six months ended 30 June 2018 to approximately HK$110.9 million for the six months ended 30 June 2019. Such increase was mainly attributable to a substantial rise in sales to customers based in the PRC, where the projects in relation to the urban complex constructions in Kunming and Wuhan contributed approximately HK$15.5 million and HK$45.8 million, respectively, towards the Group's total revenue for the period.

Cost of Sales

The Group's cost of sales amounted to approximately HK$82.9 million for the six months ended 30 June 2019, representing an increase of approximately 38.6% from HK$59.8 million for the six months ended 30 June 2018. Cost of sales mainly comprised of costs of raw materials and staff costs, which accounted for approximately 77.7% and 10.5% respectively of the Group's total cost of sales for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately 80.7% and 13.0% respectively).

Gross Profit/Gross Profit Margin

The Group's gross profit increased by approximately 12.8%, from approximately HK$24.9 million for the six months ended 30 June 2018 to approximately HK$28.0 million for the six months ended 30 June 2019, as a result of a rise in sales for the period. The overall gross profit margin of the Group, on the other hand, decreased by approximately 4.1% from approximately 29.4% during the six months ended 30 June 2018 to approximately 25.3% during the six months ended 30 June 2019. The decrease of gross profit margin was mainly due to (i) a decrease in the revenue of Macau sales (which generally is able to generate higher gross profit margins than for Hong Kong or PRC sales) by approximately 67.8% from approximately HK$10.1 million to approximately HK$3.3 million, and (ii) an increase in subcontracting fee of approximately HK$6.1 million from approximately HK$0.7 million to approximately HK$6.8 million as a result of the saturated production capacity of the factories which led to the subcontracting of more manufacturing and installation works to third parties during the period.

The Group has been setting up a new factory in Dongguan during the year 2019 in order to increase the production capacity to manage the growth of sales from the PRC market while maintaining the stream of revenue from the Hong Kong and Macau market. The new factory is expected to commence production operations in the second half of the year 2019, which would reduce the subcontracting costs considerably and thereby will have a positive impact on the gross profit margin of the Group in the future.

Other income, gains and losses

The Group's other income, gains and losses decreased by approximately 147.1%, from net income of approximately HK$0.5 million for the six months ended 30 June 2018 to a net loss of approximately HK$0.2 million for the six months ended 30 June 2019, which was mainly attributable to a net exchange loss of approximately HK$0.6 million being recorded during the period.

Selling and distribution expenses

The Group's selling and distribution expenses increased by approximately 18.3% from approximately HK$4.5 million during the six months ended 30 June 2018 to approximately HK$5.3 million during the six months ended 30 June 2019 and such increase was mainly attributable to a rise in transportation expenses of approximately HK$0.9 million.

Administrative and other expenses

The Group's administrative and other expenses decreased by approximately HK$3.6 million, or approximately 23.4%, from approximately HK$15.4 million for the six months ended 30 June 2018 to approximately HK$11.8 million for the six months ended 30 June 2019. The decrease was mainly due to the drop in listing expenses of approximately HK$5.8 million which had been fully recognised for the period ended 30 June 2018 upon the Listing, the effect of which was partially offset by the increase in professional fee of approximately HK$1.2 million resulting from additional legal and compliance requirements for the Group after the Listing.

Finance costs

The Group's finance costs decreased by approximately 87.7% for the six months ended 30 June 2019 as compared with approximately HK$0.3 million for the six months ended 30 June 2018. The decrease in finance costs was due to repayment of all bank loans during the period.

Income tax expense

The Group's income tax expense increased by approximately 46.7% from approximately HK$2.5 million for the six months ended 30 June 2018 to approximately HK$3.7 million for the six months ended 30 June 2019. This is due to a rise in taxable profit, the effects of which is amplified as the Group's taxable profits for the period are all chargeable to enterprise income tax in the PRC, which have a much higher tax rate than the profits tax charged in Hong Kong, whereas more than half of the taxable profits for the six months ended 30 June 2018 were generated from Hong Kong.

Profit for the period attributable to the owners of the Company

Profit for the period attributable to the owners of the Company increased by approximately HK$4.2 million or approximately 156.7% from approximately HK$2.7 million during the six months ended 30 June 2018 to approximately HK$6.9 million during the six months ended 30 June 2019. Such increase was mainly due to the combined effects of (i) a rise in gross profits of approximately HK$3.2 million, (ii) a drop in administrative and other expenses of approximately HK$3.6 million, and (iii) an increase in profits tax of approximately HK$1.2 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group has financed its operations primarily through cash inflows from operating activities and bank borrowings, as well as proceeds received from the Listing. As at 30 June 2019, the Group had cash and cash equivalents of approximately HK$79.0 million (31 December 2018: approximately HK$90.5 million) and had no bank borrowings (31 December 2018: approximately HK$0.3 million).

As at 30 June 2019, the working capital (current assets less current liabilities) and total equity attributable to owners of the Group were approximately HK$157.9 million (31 December 2018: approximately HK$163.4 million) and approximately HK$202.5 million (31 December 2018: approximately HK$196.6 million).

Gearing ratio (total debt including amount due to a Director and bank loans/total equity) as at 30 June 2019 was nil (31 December 2018: approximately 0.1%) as the Group had repaid all bank borrowings during the six months ended 30 June 2019.

CURRENCY RISK

The Group has minimal exposure to foreign currency risk as most of its business transactions and assets and liabilities are principally denominated in the functional currencies of the relevant group entities. As such, the Group currently does not have any foreign currency hedging policy in respect of foreign currency transactions and assets and liabilities as the Group's risk in foreign exchange is insignificant. However, the Group will continue to monitor closely its exposure to currency movement and take proactive measures.

INTEREST RATE RISK

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly interest-bearing bank balances at variable interest rates. The interest rates of these bank deposits are determined by reference to the respective bank offer rate. The Group currently does not have an interest rate hedging policy. However, the management of the Group will consider hedging significant interest rate risk should the need arise.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITION OR DISPOSALS

There were no significant investments held, nor any material acquisitions or disposals during the six months ended 30 June 2019.

PLEDGE OF ASSETS

As at 30 June 2019, the Group's banking facilities were secured by corporate guarantees provided by the Company for unlimited amounts, which remains unchanged from 31 December 2018.

FUTURE PLAN FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

Save as disclosed above and in the prospectus of the Company dated 27 April 2018 (the "**Prospectus**"), the Group does not have other plans for material investments and capital assets for the six months ended 30 June 2019 and up to the date of this announcement.

CAPITAL COMMITMENTS

The Group had no material capital commitments as at 30 June 2019 (31 December 2018: nil).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2019 (31 December 2018: nil).

EVENTS AFTER THE REPORTING PERIOD

There have been no other material events occurring after the reporting period and up to the date of this announcement.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend to shareholders of the Company (the "**Shareholders**") for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

EMPLOYEES AND REMUNERATION POLICY

The Group had 243 full-time employees as at 30 June 2019 (31 December 2018: 225), among which 47 and 196 were stationed in Hong Kong and the PRC, respectively. Most of the Group's employees were factory workers in the PRC. The total staff costs (including fees, salaries and other allowance, and retirement benefit scheme contributions) for the six months ended 30 June 2019 were approximately HK$14.8 million (six months ended 30 June 2018: approximately HK$13.6 million). The remuneration policy and package of the Group's employees were periodically reviewed. Apart from retirement benefit scheme contributions, salaries increment and discretionary bonuses may be awarded to employees according to the assessment of individual performance. The remuneration policy in place as at 30 June 2019 was in line with the current legislation in the relevant jurisdictions, market conditions and performance of the staff and the Group.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Specific enquires have been made to all Directors and the Directors have confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the six months ended 30 June 2019.

Compliance with the Corporate Governance Code

It is the belief of the Board that good corporate governance plays a vital part in maintaining the success of the Company. The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value accountability. The Company has complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2019. The Company will continue to review the current corporate governance structure from time to time and shall make necessary changes when appropriate and report to Shareholders accordingly.

Share Option Scheme

The Company has adopted a share option scheme on 23 April 2018 (the "**Share Option Scheme**") as incentive or reward for contributions that the eligible participants have made or may make to the Group. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Statutory and General Information – D. Share Option Scheme" in Appendix V to the Prospectus.

There were no share options outstanding under the Share Option Scheme nor were any share options granted, agreed to be granted, exercised, cancelled or lapsed under the Share Option Scheme since its adoption and up to the date of this announcement.

Review by Audit Committee

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process, risk management and internal control system of the Group, oversee the audit process and select external auditors and assess their independence and qualifications. The Audit Committee consists of two independent non-executive Directors being Ms. Ng Ching Ying and Mr. Cheng Sum Hing, and one non-executive Director being Mrs. Kan Wan Wai Yee Mavis. The Audit Committee is chaired by Ms. Ng Ching Ying.

The Audit Committee has reviewed the unaudited consolidated interim results and the interim report of the Company for the six months ended 30 June 2019 and agreed to the accounting principles and practices adopted by the Company.

Publication of Results Announcement and Despatch of Interim Report

The interim results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.rem-group.com.hk). The interim report will also be available at the above websites and will be despatched to the Shareholders in due course.

By Order of the Board
REM Group (Holdings) Limited
Wan Man Keung
Chairman and Executive Director

Hong Kong, 28 August 2019

As at the date of this announcement, the executive Directors are Mr. Wan Man Keung and Mr. Leung Ka Wai, the non-executive Director is Mrs. Kan Wan Wai Yee Mavis, and the independent non-executive Directors are Mr. Ng Chi Keung Alex, Mr. Cheng Sum Hing and Ms. Ng Ching Ying.